BRIEF ANALYSIS
OMB MID-SESSION REVIEW FY 2004 BUDGET

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A Disturbing Picture of Fiscal Deterioration Under the Bush Administration

The Bush administration's Mid-Session Review of the FY 2004 Budget provides a dramatic and disturbing picture of the fiscal deterioration the nation is experiencing under the failed budget and economic policies of President Bush. Since the President took office, record surpluses have been turned into record deficits, a thriving economy has ground nearly to a halt, and a strong job market has been replaced with surging unemployment.

Remarkably, the Bush administration now projects a 2003 deficit of $455 billion, the largest deficit in our nation's history. When Social Security revenue is excluded, the deficit totals $610 billion, or 5.7 percent of gross domestic product – a deficit level that has been reached only one previous time since the end of World War II. In 2004, the deficit is projected to reach another record-setting high of $475 billion.

Bush Administration Projected Budget Deficits – as of July 2003

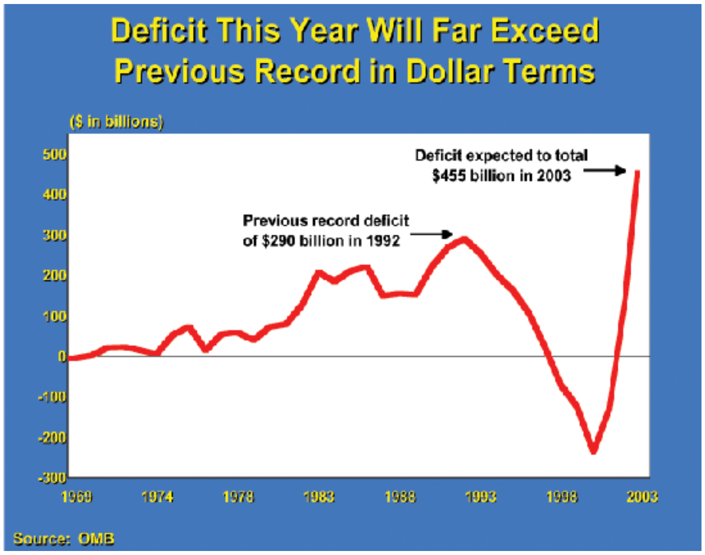
$ billions	2003	2004	2005	2006	2007	2008	2004-08
Deficits	-455	-475	-304	-238	-213	-226	-1,455
Deficits w/o Social Security	-610	-636	-488	-437	-431	-460	-2,453
% of GDP	5.7%	5.6%	4.1%	3.5%	3.3%	3.4%	---
Debt held by the public.	4,036	4,473	4,789	5,043	5,272	5,516	---

Yet, despite these disturbing projections, the actual deficit figures are likely to be far worse. The administration understates the likely deficit levels by leaving out huge expenses, such as the additional funding required to sustain military and reconstruction activities in Iraq and Afghanistan, which have been estimated to be about $5 billion each month. In addition, by providing only five-year projections, instead of the traditional ten-year figures, the Bush administration conceals the long-term fiscal crisis that lies just over the horizon when the cost of its tax cuts will explode at the same time that the baby boom generation begins to retire. Other organizations have estimated that deficits are likely to top $4 trillion over the next decade.[1]

[1] The following organizations have made deficit projections for fiscal years 2004-13: The Center on Budget and Policy Priorities ($4.1 trillion); The Concord Coalition ($4 trillion); Goldman-Sachs ($4.5 trillion); and the House Budget Committee Democratic Staff ($4 trillion).

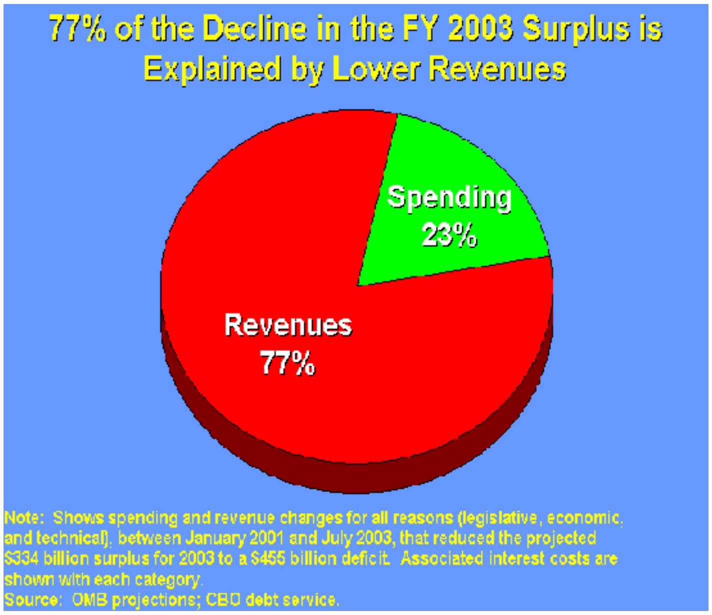
Instead of slowing this dramatic fiscal reversal, as the administration has claimed, the President's program of massive tax cuts has exploded deficits and done little to help the economy. Economic growth remains sluggish and the Bush administration is on track to be the first administration to oversee a decline in private sector jobs over its term in office since the Hoover administration during the Great Depression. In fact, since the President took office in January 2001, more than 3 million private sector jobs have been lost.

The 2003 Deficit: Huge By Any Measure



The deficit projection for 2003 will far exceed the previous record in dollar terms. This deficit will be far larger than the previous record deficit of $290 billion reached during the administration of President Bush's father in 1992.

When Social Security is set aside, the actual deficit is far worse. The projected $455 billion deficit understates the seriousness of the nation's fiscal woes because it includes Social Security with the rest of the budget. When Social Security is set aside, the deficit is $610 billion, or 5.7 percent of GDP. In the 57 years since the end of World War II, the on-budget deficit as a percentage of GDP has reached this level only one other time, in 1983. The anticipated 1983 deficit level was regarded as such a fiscal crisis that President Reagan approved a series of tax increases to slow the nation's plunge into the red. In contrast, President Bush proposes to drive us deeper into deficit with more tax cuts.



77 percent of the decline in the surplus projected for 2003 is due to lower revenues. The administration and its allies have tried to blame this decline and the resulting deficits on congressional spending. That is simply wrong. The $334 billion surplus projected for 2003 when President Bush took office has turned into a $455 billion deficit – a $789 billion reversal. Seventy-seven percent of the change comes from a drop-off in revenue since January 2001 and associated interest costs. The President's tax cuts, the recession, and other factors have reduced revenues to 16.3 percent of GDP in 2003 – the lowest level since 1959. The spending increases that we have seen over the last few years are almost entirely due to higher appropriations for defense and homeland security, which received broad, bipartisan support.

Deficits in 2004 and Beyond: Bush Projections Conceal Fiscal Crisis Ahead

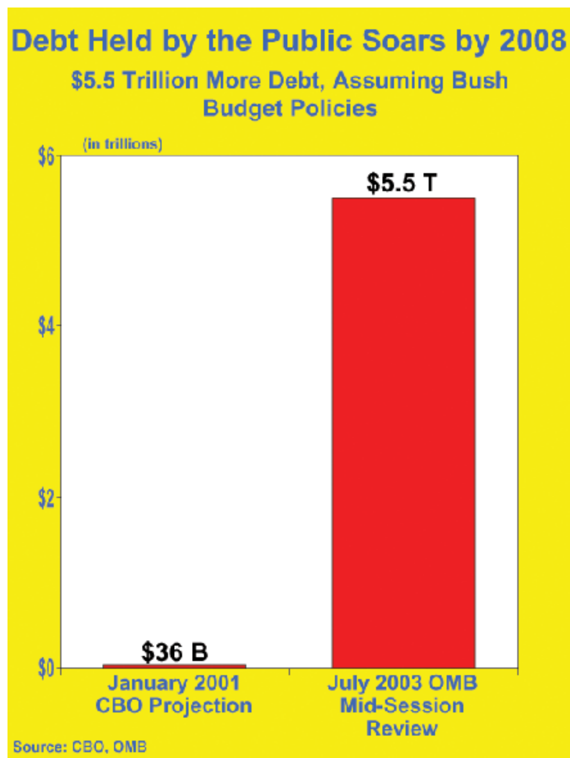
The 2004 deficit of $475 billion will set yet another record. This projection for 2004 is $168 billion higher than the estimate made just five months ago. However, the actual 2004 deficit is likely to exceed $500 billion, because the estimate does not include additional supplemental appropriations that are likely to be enacted before the end of 2004 for military and reconstruction activities in Iraq and Afghanistan, as well as additional funding for natural disasters and other emergencies. The costs of the military operations alone could add $60 billion to the 2004 figure.

Deficits for 2004-08 are understated because they do not fully account for the war and other spending. The Bush administration estimate of the cumulative deficits over the next five years totals $1.5 trillion. However, the actual deficits are likely to be higher for the reasons mentioned above. The war efforts alone could add hundreds of billions of dollars to the level of deficits projected for the next five years. In addition, the Bush administration numbers ignore the cost of significant Alternative Minimum Tax (AMT) relief, which will further worsen the budget outlook.

Long-term budget projections are excluded from the report. The President's Mid-Session Review does not include deficit estimates beyond 2008, since these projections would expose the huge increases in deficits that will occur as the baby-boomers begin to retire and the costs of the tax cuts explode. Goldman-Sachs and other independent analysts forecast deficits exceeding $500 billion a year when the baby boomers start to retire.

Long-term deficits could exceed $4 trillion. Deficit estimates in the President's budget for the next five years are billions lower than the projections of future deficits made by Goldman-Sachs and other organizations. These organizations have also made ten-year deficit projections, and these estimates hover around $4 trillion for the 2004-13 period for total or unified deficits, and increase to about $6.7 trillion if Social Security is excluded. These estimates are reached by including the cost of legislation that is likely to be enacted, but has not been included in the President's budget, and, in some cases, by using more realistic economic forecasts. The legislation likely to be enacted could include: higher spending for the military, homeland security, and natural disasters, or tax cuts, such as provisions designed to prevent the AMT from affecting more taxpayers.

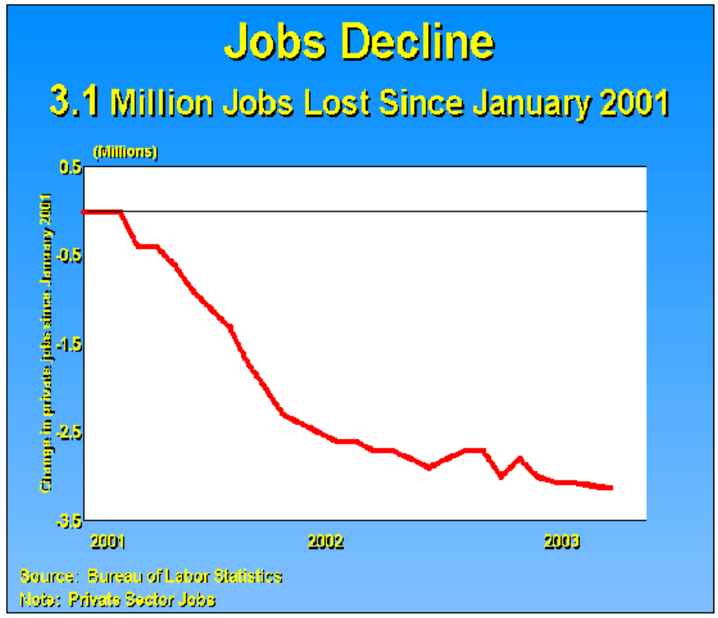
Debt and interest costs continue to increase. In January of 2001, both OMB and CBO projected that debt held by the public would be paid off by 2008. The Mid-Session Review anticipates instead that debt will rise to $5.5 trillion in that year. Higher deficits and debt increase government interest payments. In January of 2001, CBO projected that the government would make no interest payments after 2008. The Mid-Session Review now projects interest costs in 2008 of $260 billion.



President Bush's Plan to Grow the Economy by Cutting Taxes Has Failed

President Bush has assured the American people that the tax cut packages he promoted in 2001, 2002, and 2003 would generate strong economic growth and create jobs. The economic record of the last two and a half years indicates that the President's policies have failed to deliver on these assurances.

Economic growth has been sluggish, and jobs continue to disappear. Under the Bush administration, we are seeing the slowest economic growth of any administration in 50 years. Private sector jobs have fallen by 3.1 million since January 2001 and by more than 300,000 in five consecutive months of decline from January 2003 to June 2003. This administration is on track to be the only administration in 70 years to experience a decline in private sector jobs over the entire period the President is in office.



Spells of unemployment lengthen. The time an individual is unemployed now averages 19.8 weeks – longer than at any time since the data began in 1948, except for seven months in 1983-84 when unemployment reached 10 percent. Between January 2001 and June 2003, the unemployment rate has climbed by 2.3 percentage points.

A better-designed fiscal policy would have provided more stimulus for the economy up-front, when it is needed, and cost much less over the long-term. President Bush's plan has lavished large, permanent tax cuts on the wealthy, who are the least likely to increase spending in the short-run to help the economy. Short-term tax cuts for struggling middle- and low-income taxpayers would have provided more stimulus, without increasing the long-term deficit.

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